

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 909 - HB 1154

April 27, 2021

SUMMARY OF ORIGINAL BILL: Authorizes grant payments to eligible individuals under the Grant Assistance Program for Nursing Home Care to be made monthly or quarterly.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (007813): Deletes all language after the enacting clause. Creates a sales and use tax holiday on the retail sale of food and food ingredients from Friday, July 30, 2021, through Thursday, August 5, 2021. Creates a sales and use tax holiday on the retail sale of prepared food, but excluding alcoholic beverages, from July 30, 2021, through August 5, 2021.

Removes the requirement that any unencumbered or unexpended funds within the Tennessee Higher Education Commission's (THEC) Qualified Work-Based Learning Grant Fund (Fund) must remain in the Fund, and removes the requirement that that moneys in the Fund must only be expended with THEC's approval and in accordance with the Qualified Work-Based Learning Grant Program.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue - Net Impact - \$24,888,700/FY21-22/General Fund

Increase State Expenditures - Net Impact - \$13,841,300/FY21-22/General Fund

Increase Local Revenue - \$551,800/FY21-22

Other Fiscal Impact – The current \$1,000,000 in the Qualified Work-Based Learning Grant Fund will be expended for additional purposes outside of the current program.

The Governor's proposed budget, as amended, recognizes a non-recurring decrease in state revenue of \$100,000,000.

Assumptions for the bill as amended:

Food and food ingredients sales and use tax holiday:

- Pursuant to Tenn. Code Ann. § 67-6-710(h), the state will reimburse any local losses of revenue from sales tax holidays; therefore, any decrease in local revenue will correspond with an increase in state expenditures to reimburse locals for such loss.
- The state food tax collections in FY20-21 were \$46,269,517 for sales transacted in the month of August.
- The current year-to-date growth rate for FY20-21 over FY19-20 is 9.59 percent; it is therefore estimated that sales in August of FY21-22 will be \$50,706,764 [$\$46,269,517 \times (1 + 9.59\%)$].
- There are 31 days in August, the proposed legislation covers 7 days and does; therefore, it is estimated that the sales and use tax collections from food and food ingredients would be \$11,449,914 [$(7 / 31) \times \$50,706,764$].
- The state tax rate on food is 4.0 percent; the effective rate of apportionment to locals is 4.0276 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The decrease in state revenue is estimated to be \$10,988,757 [$\$11,449,914 \times (1 - 4.0276\%)$] in FY21-22.
- The increase in state expenditures to reimburse local governments is estimated to be \$7,617,353 [$(\$11,449,914 \times 4.0276\%) + (\$11,449,914 / 4.0\% \times 2.5\%)$] in FY21-22.

Restaurant sales and use tax holiday:

- Pursuant to Tenn. Code Ann. § 67-6-710(h), the state will reimburse any local losses of revenue from sales tax holidays; therefore, any decrease in local revenue will correspond with an increase in state expenditures to reimburse locals for such loss.
- State sales and use tax collections from eating places in FY20-21 were \$70,079,707 for sales transacted in the month of August.
- A portion of such sales are estimated to be from alcoholic beverages and not subject to the holiday; however, sales of prepared foods at grocery stores, bakeries, drinking places, gasoline service stations, and other retailers will be subject to the holiday and are reasonably estimated to equal the approximate collections of alcohol at eating places plus any growth in sales tax collections that may occur from such eating places relative to collections in FY20-21; therefore, for purposes of this fiscal analysis, 100 percent of eating places sales are estimated to equal approximate total sales of prepared food statewide that will be subject to the one-time sales tax holiday in the month of August.
- There are 31 days in August and the proposed legislation covers 7 days; therefore, the sales and use tax collections from eating places during the holiday are estimated to be \$15,824,450 [$(7 / 31) \times \$70,079,707$].
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The decrease in state revenue is estimated to be \$15,252,080 [$\$15,824,450 \times (1 - 3.617\%)$] in FY21-22.
- The increase in state expenditures to reimburse local governments is estimated to be \$6,223,960 [$(\$15,824,450 \times 3.617\%) + (\$15,824,450 / 7.0\% \times 2.5\%)$] in FY21-22.

Sales and use tax holidays totals:

- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The amount spent from tax savings is estimated to be \$20,041,075 [(\$10,988,757 + \$7,617,353 + \$15,252,080 + \$6,223,960) x 50%] in FY21-22
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The increase in state revenue is estimated to be \$1,352,133 [(\$20,041,075 x 7.0%) – (\$20,041,075 x 7.0% x 3.617%)] in FY21-22.
- The increase in local revenue is estimated to be \$551,769 [(\$20,041,075 x 2.5%) + (\$20,041,075 x 7.0% x 3.617%)] in FY21-22.
- The net decrease in state revenue to the General Fund is estimated to be \$24,888,704 (\$10,988,757 + \$15,252,080 - \$1,352,133) in FY21-22.
- The total increase in state expenditures from the General Fund is \$13,841,313 (\$7,617,353 + \$6,223,960) in FY 21-22 and subsequent years.

Qualified Work-Based Learning Grant Fund:

- Based on information from THEC, the Program is not currently in operation; therefore, the Program has incurred no expenditures.
- Removal of these requirements in the proposed legislation will allow the full \$1,000,000 balance to be expended for other purposes.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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